

# Performance of Distribution Channels Shown on the Example of Company Specialising in Meat Processing

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As far as the rapid development of global marketing network is concerned, it is easy to notice that logistics is becoming increasingly important. The growing competition makes these networks more efficient. More and more opportunities to bring products to the customer disorganize sales network management. The analysis of the effectiveness of distribution channels allows a close examination of efficiency of how the company reaches its customers. It also supports decisions regarding the introduction of new, previously unused channels of distribution, or modification of the already in-use ones.

The range of work included a manufacturer specializing in meat processing and production of meat products, distributed in southern Poland. Using the point-analytical method, the effectiveness of distribution channels used in the company was evaluated. As a result, it was possible to determine the performance of individual sales channels. There were three distribution channels: by-company, sponsored and networking. The most effective appeared to be the networking channel, which scored a total of 235 points. Given the greatest potential of distribution, this channel, in terms of the size of the batch supplied to markets, without doubt will continue to be one of the leading directions of development in the future of the company. In second place was the by-company channel with 195 points, while the sponsored channel was the least effective. However, as a conclusion from the information gathered from the company itself, each channel will be developed in the future, proportionally to their current rank.

**Keywords:** distribution channels, effectiveness of distribution channels, meat processing, minimization distribution costs.

## 1. INTRODUCTION

The basic requirement for maintaining and developing business activities is the sale of manufactured items or provided services. The main function of the company, which allows both the existence on the market of goods and services and their sale, is distribution. Distribution includes decisions and actions related to the choice of accessibility of goods and services to final consumers. On the one hand, it increases the attractiveness of the offer, by allowing the customer to purchase and use the service at any time and place. On the other hand, the distribution costs influence the price growth, which could lead to lowering the attractiveness of the offer. Logistics distribution deals with a variety of activities related to the movement of finished items from the moment they leave the manufacturing facility, through storage, packaging, transportation,

inventory management, etc. Distribution system can include its own structure in the form of distribution channels, which are a collection of organizations that are involved in the delivery of products to users, institutional clients and consumers (Jacyna, 2012; Cyran 2006).

In the literature there are many definitions concerning distribution channels. According to Kotler (1994): the distribution channel is a set of interdependent organizations which are involved in the delivery of a product or service to the user or consumer. Another definition assumes that the distribution channel is a way to connect and order the agencies and intermediaries, through which one or more streams go (Garbarski et al, 2000). Additionally, Kramer (1995) emphasizes the dual nature of the distribution channel. From one point of view, he defines it as a way which conveys goods or services together with a simultaneous change of the value. However, from the other

angle, he describes it as a chain of intermediaries in the flow of goods and services. Therefore, it can be assumed that the distribution channel is featured as linear and compatible with way through which the product or service is delivered from the manufacturer to the buyer. It is with the help of the so-called intermediaries who are the individuals and companies that carry out services directly related to the purchase or sale of products, which are transported from the producer to the consumer.

Designing new distribution channels is of great importance, as these allow to determine which entities, how and to what extent, affect the structure and functioning of the distribution channels of certain products (Altkorn, 2001). When designing the channels for distribution of the products on the market, some decisions regarding a few aspects must be taken: the type of channel (direct, indirect), the number (one, many), length (long, short), width (wide and narrow), the type of participants (wholesalers, retailers, agents, buyers, individual etc.) (Czubała, 2001). These decisions may be taken by a manufacturer, a wholesaler or a retailer. Generally, a decision regarding the choice of distribution channel falls on a producer, as they are the most interested parties in the distribution of their goods. Efficient distribution system plays an important role in achieving the company success. Each company strives to achieve the highest efficiency because it is associated with its functionality and further development. Efficiency can be combined with effectiveness, productivity, profitability and productive capacity. The efficiency of the distribution system affects its ability to serve its objectives or planned market penetration level of revenue or profitability, or even gaining advantage over the competition (Czubała, 2006).

The purpose of this research was to analyze the effectiveness of distribution channels in the selected company, specializing in the processing of pork and beef. For the objective to be achieved, the identification of existing distribution channels in the company was performed as well as evaluation of the effectiveness of the individual sales channels.

## 2. THE IMPORTANCE OF DISTRIBUTION CHANNELS IN THE LIFE OF COMPANY

Joining Poland to the European Union's system for Polish meat manufacturers is associated with the new market reality. On the one hand, the free

market offers great opportunities for both the international exchange of goods and enlist the help of European funds. Small and medium-sized companies through the implementation of individual projects, with financial support from the EU have a chance to develop and enter into foreign markets. On the other hand, it imposes an obligation to compete. The ability to sell their products in a competitive market is often the deciding factor regarding the success or failure of the company. To succeed, it is necessary to meet buyers' needs. Products should be available in an appropriate form, place and time as well as meet the needs of consumers. All that is done by means of distribution.

Distribution embraces two functions: coordination, which is linking supply and demand (promotion, share bid, consultation, negotiation) and organizational function, that is checkout, order handling or management of the physical flow of goods, information, documents and money. In the distribution process many tasks are carried out; these involve: promotion, creation of communication channels (e.g. negotiation), activation of orders and regulating the terms of some agreements, the physical flow and storage of items, the acquisition and transfer of receivables, the acquisition of property rights, and at last but not least taking over the risks and responsibilities for compliance with agreement terms.

The main purpose of the distribution system is the need to adjust the supply of the offered items to the demand for this product, or collection and delivery in such quantities that are as closely related to the needs of the market as possible. Proper formation process is a necessity in regard to the opportunities arising from the organization of work, knowledge and skills of contractors, their accurate selection of the anticipated tasks and careful observation of the environment in which the process is to be carried out. A special role is played by the organizational structure and the contractor, as these are elements significantly determined by the management (S. Krawczyk, 2000).

Most manufacturers work with marketing intermediaries to launch their products to the market. Marketing intermediaries form a channel of distribution (Szeląg-Sikora and Oleksy-Gębczyk, 2013). The role of the distribution channel is to move goods from the producer to the consumer. It eliminates discrepancies in terms of time, place and disposal, which separates goods and services from their users (Kotler, 2010). Due

to the high-level and the economic importance of the decision of the distribution and sale of finished products, they are among the most important strategic decisions that affect the outcome of the company. Opportunities of the logistics of distribution management are the main factor determining the choice of the company and the product.

### 3. DATA AND METHODS

The range of work included a manufacturer whose business is related to meat processing (beef quarters, half pig) and the production of meat products such as hams, patés, etc. The plant produces a lot of traditional products using its own proven recipes and selected raw material to ensure high quality.

To fully realize the intended purpose of the paper, a thorough analysis the organization's existing distribution channels was carried out. The point-analytical method was used and it consists of the following components:

- points of importance reflecting the relative importance of each criterion and scoring for distinguished levels of intensity (degrees fulfilment) of all the criteria,
- job evaluation criteria set with the number of levels to meet each criterion,
- points awarded for each level of each criterion.

Source information obtained from the company relates to the annual period from January to December of 2013. The basic element of the methodology used was to determine the evaluation criteria, which was necessary to analyze the efficiency of distribution channels.

When choosing a distribution channel, the following criteria were taken into consideration:

- channel utility, specifying the volume of sales,
- liquidity, i.e. the regularity of payments,
- reduction of technical requirements,
- reducing the workload,
- the effectiveness of promotion,
- scale orders,
- minimization distribution costs,
- performance information,
- profit per unit,
- the number of clients.

Adopting such criteria was after having a conversation with the president of the company for

whom these are the prime factors regarding to the management of the company, the sale, and above all, the effectiveness of the channel.

For these criteria to an appropriate points of importance, depending on the efficiency of the channel, were given (Tab. 1). The sum of such points equals 100.

Table 1. Effectiveness criteria regarding distribution channels.

No.	CRITERION	Points of importance
1	Channel usage	20
2	Financial flexibility	10
3	Minimization of technical needs	5
4	Minimization of labor	5
5	Effectiveness of advertising	10
6	Range of orders	5
7	Minimization of distribution costs	15
8	Informative efficiency	5
9	Profit per unit	20
10	Number of customers	5
11	TOTAL	100

As it can be seen from the above table, the utility or channel sales volume and profit per unit are the most important criteria and were granted 20 or a maximum number of points. Equally important criterion was to minimize distribution costs, being awarded with 15 points, and the liquidity and efficiency of promotion (10 points). In judging the effectiveness of distribution channels were also included less important factors such as: reduction of technical requirements, efficiency and scale of procurement information, but equally important for the company, because the individual channels differ a lot between them which affects the organization of work, and also generates the remaining costs.

The next step was to develop criteria for assessing the effectiveness of each of the listed channels. The following were granted: worst effect 1, good - 2, and 3 is the best effect. This made it possible to determine the extent to which each of the distribution channels satisfy the demand of the company.

### 4. RESULTS COMPARISON

Distribution in the visited company embracing the southern part of Poland or county of Lesser Poland, is done using long and short channels. Favourable for the company are short channels, because they involve much lower costs, which

allows the sales of goods at lower price. Moreover, the danger of destruction or damage to the goods is also smaller.

**Channel I - the so-called 'by-company'**, direct sales of products is carried out mainly by the owner of the distribution of retail stores. The use of company stores, allows the reduction of costs associated with the distribution, that is, products are offered at lower prices, which results, for instance, in the absence of transport costs. Selection of the channel is limited to a certain extent the availability of this type of product as retail stores located around the plant. Despite some limitations posed by distribution to retail outlets, this channel is relatively short, so the cost is low

manufacturer or distributor and delivery to all the shops. This significantly improves the logistics processes in both the store network and distribution company, which delivers not to a few, but only to one place.

In order to calculate the efficiency of each of the three distribution channels, there was calculated as the product of the assessment criteria and the point of importance were given in compliance with the criterion. After adding up all the assessment to all the criterions of a chosen channel, the final score of its effectiveness was visible. Table 2 presents the diagnosis of a number of individual distribution channels.

Table 2. Synthetic evaluation of distribution channels

No.	Criterion	Point of Importance	By-company channel		Sponsored channel		Network channel	
			Points	Evaluation	Points	Evaluation	Points	Evaluation
1	Channel usage	20	2	40	1	20	3	60
2	Financial flexibility	10	1	10	2	20	3	30
3	Minimization of technical needs	5	3	15	2	10	1	5
4	Minimization of labour	5	1	5	2	10	3	15
5	Effectiveness of advertising	10	2	20	3	30	1	10
6	Range of orders	5	1	5	2	10	3	15
7	Minimization of distribution costs	15	3	45	2	30	1	15
8	Informative efficiency	5	2	10	1	5	3	15
9	Profit per unit	20	2	40	1	20	3	60
10	Number of customers	5	1	5	3	15	2	10
TOTAL		100		195		170		235

and constant communication through retail outlets and the production plant makes it possible to transfer goods between stores, which allows the use of stocks as well as reduces any losses.

**Channel II - the so-called Sponsored**, these are retail stores that have an agreement between the owners of shops and retail outlets, food industry and the company. This type of activity has many mutual benefits. Shop owners receive patronage besides dreaming beneficial discounts and assistance in fitting shops. In the case of the analyzed companies, in this way are supplied among others: shops, schools and restaurants.

**Channel III - the so-called Network**, embraces the distribution of goods to major chain stores, supermarkets and hypermarkets. Sale in those commercial buildings is very high, which results in large orders for pork and formalities connected with the costs are lower. Such networks mostly have their own distribution centre. Their task is to submit and receive orders from the

As shown in Table 2 channel utility and profit per unit, which was awarded the highest number of point of importance, was the most important, and received the highest score (60) in the channel network. Evaluation of 40 points to each of these criteria was received a by-company channel, and the sponsored channel scored 20. Another criterion of high number of point of importance, was to minimize distribution costs and falls as follows: 45 points by-company, 30 sponsored channel and this time the network channel received only 15 points. The usefulness of distribution channels was assessed by summing up all the criterion ratings of the channel. The one with the largest sum is the most profitable, and the one with the smallest has the lowest efficiency. The most efficient and effective channel turned out to be the third channel (network), which gained 235 points. The company uses a channel network with 20 partners. This phenomenon is becoming more common due to the dynamic development of large retailers and visited

company will surely be one of the leading directions of development. Using commercial networks as an intermediate link between producer and consumer, significantly shortens the product from manufacturing safe to sale.

This allows the products to reach the final consumer faster, as in the case of companies targeted for processing the meat it is particularly important. Basic benefits posed by the company's collaboration network with stores primarily sell large consignment of one trading company, to minimize losses arising from long-term storage and security of payment for items.

The analysis of the efficiency of the distribution channels in the studied company revealed that the second place went to the channel I (by-company) with the amount of 195 points. A large part of the production is distributed in the network of own shops, in this case 15 shops are supplied. An extensive network of direct distribution channels, which is a by-company channel, is an alternative in the distribution of the company's sales network. Owning meat gives the manufacturer a complete control over sales and prices, and information on the advantages and characteristics of the performance and if the products reach consumers directly. In this way it is possible to create their own brand and its products, which is important in the national meat industry.

In the channel II (sponsored), the company sells its products to 34 contractors, they are not only shops (17), but also schools (6), kindergartens (3) and restaurants (8). Despite the fact, that the company analyzed through the sponsored channel supports the largest number of customers, it turned out to be the least efficient and received only 170 points.

The analysis provided very important information about the company and its use of the distribution channels. This data may provide a clue to identify possible directions for future development. At the moment, however, the company intends to develop each of the channels in proportion to their current rank.

## 5. CONCLUSION

Meat and its variations play an important role in human nutrition and that is why marketing of meat products requires continuous improvement. Meat market organization and management of distribution has a very special role because it influences the quality and stability of the product. The most important task is the organization of

distribution, which will reduce the total costs, while providing customers with the highest quality product. The way, which the goods have to go through from producer to consumer, or distribution channel includes not only the movement, but also negotiation, promotional activities, the order of the goods, the payment of debts and market information. The analysis proves that the company's channels are extremely varied in terms of usefulness, effectiveness of promotion, as well as regular payments. After evaluating the distribution channels by-point analysis and it becomes a fact that the most efficient and effective channel is network (with 235 points). In second place was by-company channel (195 points) and fewest points (170) received the sponsored channel.

Currently, on the food market especially, we can observe an increasing importance of huge chain supermarkets which can turn to have positive influence on the visited company. Network channel carries possibilities of wholesale of goods on the almost limitless area. At the present time, the company is up-to-date with all its orders regarding meat. Transports are made regularly and on a daily basis. The ordering chain-supermarkets appreciate that fact and scrutiny and their payments also are transfer due to date. All in all, the cooperation seems to be flourishing bringing profit to both sides and shows good prospects for the near future.

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